

**REGULAR MEETING OF THE BOARD OF ADMINISTRATION
RETIREMENT BOARD
WATER AND POWER EMPLOYEES' RETIREMENT PLAN**

MEETING – JUNE 19, 2002

Present:

Javier Romero	President
Dan Mirisola	Vice-President
Lilly Calvache	Board Member
Ron Vazquez	Chief Financial Officer
David Wiggs	General Manager
Norma Bertrand	Retiree Member

Absent:

Mary Leslie	Commissioner
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Others Present:

Duamel Vellon	Retirement Plan Manager
Silvia Tesseneer	Recording Secretary
Mike Wilkinson	Deputy City Attorney
Rob Harkins	The Boston Company
Quinn Stills	The Boston Company
Peter Lakatos	Director of Labor Relations
Allan Emkin	Pension Consulting Alliance
Neil Rue	Pension Consulting Alliance
Mike Buccat	DWP Employee

The meeting was called to order at 10:07 am after the Pledge of Allegiance.

[Pledge of Allegiance]

President Romero welcomed Ms. Norma Bertrand as the newly appointed Retiree Member of the Department of Water and Power Retirement Board.

President Romero ruled Item 22 be tabled until the next meeting due to time constraints and Item 23 be discussed right after public comments to accommodate Mr. Allan Emkin who had to leave early.

Mr. Vellon commended Ms. Silvia Tesseneer for her assistance in the preparation and timely distribution of today's Agenda.

PUBLIC COMMENTS

President Romero inquired if there were any requests for Public Comments. Mr. Vellon stated there were 2 requests for general comments.

President Romero acknowledged Mrs. Dolores Foley.

Mrs. Foley identified herself as President of the Retired Employees' Association. She indicated reading the minutes included in the agendas for approval, and having attended most of these meetings, she felt the approved minutes are not representative of the actions taking place, resulting in a deliberate omission of certain actions. She continued by quoting Chapter 4 of the Brown Act, "Rights of the Public", Section 549-53.5, "...public may obtain a copy at cost of an existing tape recording made by the legislative body of its public session." She added the California Public Records Act also entitles the public to obtain a copy of the Board tapes and if this Board will not comply, she requested a letter with the reasons for the denial. She further indicated she was presenting her request in letter form and handed this to Mr. Vellon.

President Romero acknowledged Mr. Tory Viso.

Mr. Viso [a Financial Consultant] expressed support for the motion of having active management for the Retirement portfolio as long as parameters are set up.

Mr. Allen Emkin approached the table.

22. Consideration of Asset/Liability Study – Presentation by Allan Emkin, Pension Consulting Alliance, Inc. (PCA)

Mr. Emkin thanked the Board for accommodating him. He explained his presentation was part of an overall planning process started by this Board over 9 months ago. He discussed the breakdown in plan membership. He added this was a mature plan since there were more members retired (than active) and not contributing to the plan. He stated growth to the Plan can only come from the portfolio and not from the contributions. He reported currently there is 60% of assets in equities, 29% in fixed income and 12% in cash, adding this was markedly different than most large institutional investors and also compared to peers. He compared the Plan to its peers, showing the differences, concluding peers have lower allocations in cash, have exposure to international stocks, equities, real estate and alternative investments.

Mr. Emkin continued his transparencies (overhead projector) and explained the Asset Allocation Study, indicating as this planning process goes forward, the goal of the asset side of the portfolio will be to generate the highest level of return at the lowest level of risk and this can only be accomplished by diversification. He explained the concept of standard deviation, projections of financial conditions and presented various growth scenarios. He reported there are more monthly benefits paid out than employer/employee contributions. He discussed the sensitivity of the employer contributions requirements at different rates of investment performance. Some discussion ensued and Mr. Emkin concluded his presentation.

Mr. Emkin was excused and left.

President Romero ruled Item 25 be discussed next.

25. The Boston Company Asset Management, LLC investment counsel

recommendations for the Board to act upon as to the purchase and sale of financial securities in accordance with the Board's Investment Policy and in voting proxies.

Mr. Stills approached the table.

Mr. Vellon reported there were no recommendations from the Boston Company.

Mr. Stills explained they worked with staff and members of the Board to put together new language regarding the transition of the Highmark assets. He handed out a proposed amendment to the Board's Resolution number 02-85. He explained this change was necessary to avoid any confusion between the Resolution and the defined term contract with the Plan.

President Romero inquired of Mr. Wilkinson and Mr. Wiggs if there was any problem with the change proposed by Mr. Stills. Both responded in the negative. President Romero inquired of Mr. Harkins if this was the last change they would bring to the Board. Mr. Harkins responded this was the last item needed and if approved they were ready to sign the contracts.

Mr. Mirisola asked for Mr. Vellon's comments. Mr. Vellon indicated there was a meeting with the Boston Company representatives and President Romero and there was agreement as to the wording of Resolution No. 02-85, and the draft resolution in the packet reflects these. He expressed concerns about the Boston Company's practice of bringing more changes to the Board and, on that basis, he could not recommend adoption of the changes they are presenting today. After some discussion, Ms. Calvache moved approval of the proposed changes, including those presented today by Mr. Stills. Seconded by Mr. Mirisola and carried unanimously after the following vote:

Ayes: Calvache, Bertrand, Mirisola, Vazquez, Wiggs, and Romero

Nays: None

President Romero ruled Items 27 and 28 be discussed next.

27. Consideration of amendments to the Retirement Plan Document as a result of the "meet and confer" process to provide Retirement service credit for certain part-time employees covered by Civil Service (Local 18 meet and confer process/MOU).

President Romero acknowledged Mr. Mike Buccat for comments on Items 27 and 28.

Mr. Buccat indicated he would like to defer to Mr. Peter Lakatos who would be able to answer any questions regarding these items.

Mr. Lakatos approached the table.

Mr. Lakatos explained certain conceptual terms with IBEW were negotiated, to implement certain benefits, including Retirement for part time employees covered by Civil Service. He requested this Board take these negotiations into consideration.

President Romero indicated these considerations are subject to actuarial reports, defining language, inclusive of any charter amendments. Mr. Vellon clarified, when the Department negotiates a contract with the Unions, and these affect benefits within the Plan document, amendments are made to the Plan document and there need to be actuarial reports presented to the Board for consideration of these changes. He added, due to time constraints, this item was presented to the Board without the necessary reports. Mr. Vazquez inquired if this change had been submitted to the actuary for review. Mr. Vellon responded it was submitted two weeks prior to this meeting and the report is pending. Ms. Calvache moved approval of the retirement Plan amendments as proposed by Mr. Lakatos. Seconded by Mr. Wiggs and carried unanimously after the following vote:

Ayes: Calvache, Bertrand, Mirisola, Vazquez, Wiggs, and Romero
Nays: None

28. Consideration of amendments to the Retirement Plan Document as a result of the “meet and confer” process to provide for certain Plan benefit improvements (Local 18 meet and confer/MOU).

Mr. Lakatos explained he was available if there were any questions regarding this item, noting it was similar to Item 27 (involving various changes to the plan as listed in the Agenda packet). Mr. Mirisola moved approval of Item 28. Seconded by Mr. Wiggs and carried unanimously after the following vote:

Ayes: Calvache, Bertrand, Mirisola, Vazquez, Wiggs, and Romero
Nays: None

Mr. Wiggs left.

[The regular order of the agenda resumed.]

Mr. Vellon reported Items 1 to 5 were submitted for consent approval as follows:

- 1. Approval of Minutes for the May 15, 2002 Board Meeting.**
- 2. Approval of Special Board Minutes for the May 29, 2002.**
- 3. Termination from Monthly Rolls as of June 2002:
Retirement Resolution for June 2002
Survivorship Resolution for June 2002**
- 4. Resolution Appointing Purita B. Cabugos as Trustee for her Disabled Son Frederick B. Cibu.**
- 5. Authority to Purchase Commercial Paper from the List of Approved Issuers**

Mr. Mirisola moved approval of the consent items. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: Calvache, Bertrand, Mirisola, Vazquez, and Romero
Nays: None

Mr. Vellon recommended Items 6 to 19 be received and filed as follows:

6. **Investment Committee Minutes of May 8, and 22, 2002.**
7. **Benefits Committee Minutes of May 15, 2002**
8. **Report of Payment Authorizations as of May 2002.**
9. **Short Term Investments as of May 31, 2002.**
10. **Stock Portfolio Listing as of May 31, 2002**
11. **Report on Long Term Investments (Bonds) as of May 31, 2002.**
12. **Security Transactions for 5 weeks ending May 31, 2002.**
13. **Distribution of Securities by Type and Class as of April 30, 2002.**
14. **Statement of Investments owned as of April 30, 2002.**
15. **Equity Investments as of April 30, 2002.**
16. **Notice of Deaths as of May 2002.**
17. **Staff reports concerning controls in place to insure accuracy of Retirement calculations as well as calculations of cost for Other Government Service (OGS).**
18. **Appointment of DWP Retirement Plan Sr. Utility Accountant [Chief Accounting Employee [Sec. III C (1)].**
19. **Board of Commissioners appointment of Ms. Norma J. Bertrand as the Retired member of the Board of Administration of the Water and Power Employees' Retirement Plan (unexpired term May 21, 2002 to June 30, 2003).**

Mr. Vellon explained Item 17 had been requested by Board members. He added the report included in the Agenda Packet represented all the manual controls in place to ensure accuracy of calculations, as used by the Retirement staff. He indicated staff members were present to answer questions. He suggested an alternative available to the Board was to retain auditors to come in once a year to verify all controls in place. Mr. Mirisola thanked Mr. Vellon for the report and indicated he will review it carefully.

Mr. Vellon introduced Mr. Manoj Desai, the newly hired Sr. Utility Accountant, a position required by the Plan Document. Mr. Vellon then recommended Items 6 to 19 be

received and filed. Ms. Calvache moved Items 6 to 19 be received and filed. Seconded by Ms. Bertrand and carried unanimously after the following vote:

Ayes: Calvache, Bertrand, Mirisola, Vazquez, and Romero
Nays: None

20. Consideration of amendment to Board Resolution 02-85 to reflect various changes suggested by representatives of the Boston Company Asset Management, LLC.

Mr. Vellon explained Resolution 02-85 was approved by the Board at a Special Meeting. He added this item represented changes (to Resolution 02-85) negotiated with the Boston Company representatives. He recommended approval of the proposed amendment to Board Resolution 02-85. Mr. Vazquez moved approval of Item 20. Seconded by Ms. Calvache and carried unanimously after the following vote [Resolution 02-85 will also reflect the changes adopted by the Board during the discussion of Agenda Item 25, page 2 of these minutes]:

Ayes: Calvache, Bertrand, Mirisola, Vazquez, and Romero
Nays: None

21. Consideration of full discretion contracts with The Boston Company Asset Management, LLC, and Standish Mellon Asset Management Company LLC to reflect their fee for monitoring the portfolio previously assigned to Highmark Capital Asset Management, LLC.

Mr. Vellon reported this item represented an amendment to the next draft contract with the Boston Company to resolve their annual (\$140,000) fee request for monitoring the Highmark assets. President Romero inquired if The Boston Company will be paid quarterly at the full amount, even if full quarter services are not provided. Mr. Vellon clarified the contract allows for proration. Some discussion ensued regarding the breakdown between The Boston Company (\$105,000) and Standish Mellon (\$35,000) of the \$140,000 fee. Mr. Vellon recommended approval of Item 21. Ms. Calvache moved approval of Item 21. Seconded by Mr. Mirisola and carried unanimously after the following vote:

Ayes: Calvache, Bertrand, Mirisola, Vazquez, and Romero
Nays: None

22. Consideration of Asset/Liability Study - Presentation by Allan Emkin, Pension Consulting Alliance, Inc. (PCA).

This item was discussed out of sequence, see page 2 of these minutes.

23. Consideration of Asset Allocation Study – Presentation by Allan Emkin, Pension Consulting Alliance, Inc. (PCA)

This item was initially deferred until the end of the meeting, but it was eventually tabled due to time constraints.

- 24. TCW Asset Management Company investment counsel recommendations for the Board to act upon as to the purchase and sale of financial securities in accordance with the Board's Investment Policy and in voting proxies.**

Mr. Vellon reported there were no recommendations from TCW.

- 25. The Boston Company Asset Management, LLC investment counsel recommendations for the Board to act upon as to the purchase and sale of financial securities in accordance with the Board's Investment Policy and in voting proxies.**

This item was discussed out of sequence, see page 3 of these minutes.

- 26. HighMark Capital Asset Management, LLC investment counsel recommendations for the Board to act upon as to the purchase and sale of financial securities in accordance with the Board's Investment Policy and in voting proxies.**

Mr. Vellon reported there were no recommendations from Highmark.

- 27. Consideration of amendments to the Retirement Plan Document as a result of the "meet and confer" process to provide Retirement service credit for certain part-time employees covered by Civil Service (Local 18 meet and confer process/MOU).**

This item was discussed out of sequence, see pages 3 and 4 of these minutes.

- 28. Consideration of amendments to the Retirement Plan Document as a result of the "meet and confer" process to provide for certain Plan benefit improvements (Local 18 meet and confer/MOU).**

This item was discussed out of sequence, see page 4 of these minutes.

- 29. Consideration of renewal of Contract 118, between the DWP Plan and Sungard Financial Systems (expires July 1, 2002)**

Mr. Vellon reported this item was for the renewal of the contract with Sungard Financial Systems, previously approved by the Board, pending a finalized draft contract. He added this resolution includes a slight cost of living increase in fees. Mr. Mirisola moved approval of Contract 118. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: Calvache, Bertrand, Mirisola, Vazquez, and Romero
Nays: None

- 30. Consideration of 90 days extension of Contract 120, between the DWP Plan and Segal Company (expires June 30, 2002), under the terms of such Contract 120.**

Mr. Vellon reported this item had been approved by the Board, subject to a final draft contract. He indicated there is some insurance language being worked on, for the new contract, and Segal Company agreed to a 90 days extension until the insurance language can be finalized. He recommended approval of extending the current contract for 90 days. Mr. Mirisola inquired if the actuarial work being done by Paul Angelo (Segal Company) for the Department is being paid by them. Mr. Vellon responded the Department has paid for what they received and an estimate has been requested for the work requested by the Retirement Board, relative to the final Plan amendments under the approved MOU. Mr. Mirisola then moved approval of the 90 days extension. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: Calvache, Bertrand, Mirisola, Vazquez, and Romero

Nays: None

31. Consideration of Plan Document requirement to the effect the employees' pay on the 1st day of the pay period control for purposes of members' biweekly contributions and average salary calculations.

Mr. Vellon reported a Plan member, at a previous Board meeting, presented this Item. He noted Board members requested the item be added to the agenda for discussion. He explained the nature of the member's concern, has to do with the DWP's payroll design which determines member contributions, based on the DDR in effect on the first day of the pay period, regardless of possible higher salaries obtained by members for temporary assignments commencing on the second day (or after) of the pay period.

President Romero expressed his support for examining the member's concerns. He noted the payroll process penalizes certain employees for working the second day of the pay period. He added there needs to be a meeting with management and a resolution of the situation, possibly through the "meet and confer" process. Some discussion ensued and Mr. Vazquez suggested Management review.

President Romero suggested a letter be sent to Management, relative to Plan language loophole. Ms. Calvache suggested verifying if this is a "meet and confer" item, so as to take the appropriate steps. Ms. Bertrand expressed support for a "heads up" letter to management and she so moved. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: Calvache, Bertrand, Mirisola, Vazquez, and Romero

Nays: None

32. Consideration of request to buy lap top computers for Board members

Mr. Vellon reported President Romero requested this item. President Romero indicated he works out in the field and does not have an office or access to a computer and email. He added once the Plan's portfolios go into full discretion, he also wants to be able to monitor the activities of the portfolio Managers. He suggested laptops be made available to all Board members who request it.

Ms. Bertrand inquired how often President Romero plans to use the laptop and President Romero responded daily. Mr. Vazquez expressed support for President Romero's suggestion. Mr. Mirisola then moved to provide a laptop to Board members with no access to a computer. Seconded by Mr. Vazquez and carried by majority after the following vote:

Ayes: Calvache, Mirisola, Vazquez, and Romero

Nays: Bertrand

Mr. Vazquez commented any laptops purchased would be property of the DWP Retirement Plan office as is the case for all office equipment.

33. Retirement Plan Manager comments

a) Legal Opinions received.

Mr. Vellon noted the summary of legal opinions was included in the agenda packet.

b) Introduction of Chief Accounting employee and IT assigned Senior Systems Analyst

Mr. Vellon reported the Chief Accounting employee was introduced previously. He stated Ms. Marie Park had been hired as the IT Senior Systems Analyst assigned to Retirement. He explained the purpose of the Senior Systems Analyst was to work in the computerization of the Retirement Plan Office, to better serve the members and provide them with accurate data.

c) Update on pending death benefit payments.

Mr. Vellon reported there are still old death benefit cases which have remained open since 1977. He indicated the DWP Security Office have committed to following up on these cases through local police tracking systems to hopefully find the lost beneficiaries. He reported after all resources are exhausted, the monies will have to be paid back into the Retirement Fund.

d) Retirement Plan data collection project.

Mr. Vellon explained the Retirement Plan has no accurate data available through the computers and this represents a problem. He added Ms. Park will be working on this and will provide monthly progress reports to the Board.

e) DWP Plan Newsletter for retirees (May 31, 2002 Edition).

Mr. Vellon reported the May 31, 2002 Newsletter for DWP retirees was included in the agenda packet for information.

f) Update on new rollover provision under IRS rules.

Mr. Vellon reported he is working with Attorney Wilkinson on implementing the rollover provisions under the new IRS provisions. Mr. Mirisola inquired if the Board can expect the appropriate amendment to the Plan within this year. Attorney Wilkinson answered in the affirmative.

g) Vendor issues relative to the production of DWP (June 30, 2002) annual Benefits Statements.

Mr. Vellon reported the annual personalized statements had been incorrect for a number of years. He noted the June 30, 2001 was no exception and the vendor again did not deliver an acceptable product. He indicated a meeting will take place with the vendor to discuss these problems and see what options are open. He added if vendor cannot present dramatic improvements, a recommendation of changing the vendor will be presented to the Board, also a pending bill of \$8,000 will be renegotiated with the vendor.

Mr. Mirisola inquired if a new corrected personalized statement is being provided to all members. Mr. Vellon responded in the negative and indicated as members contact the office, a letter with the correct information is sent to them. He added a second distribution is not advisable, considering a new statement for 2002 is in process. He suggested sending two statements so close together can lead to more confusion. Discussion ensued and Mr. Vazquez recommended no report should be sent until there is accurate data on all members. Mr. Mirisola expressed concern for how long the computerization and data collection project will take. He reiterated the Plan's obligation to provide statements to the members. Mr. Vellon indicated Ms. Park is already working on a timeline for the data collection project and will provide regular reports to this Board.

Ms. Calvache left.

h) General items

No general items were reported.

- 34. Consideration of resolutions related to full discretion contracts with The Boston Company Asset Management, LLC, TCW Asset Management Company and Standish Mellon Asset Management Company LLC.**
- a. Resolution authorizing the transfer of "in-kind" securities from The Boston Company Asset Management, LLC to the TCW Asset Management Company for purposes of the DWP Death Benefit Fund**

Mr. Vellon reported this resolution allows for the transfer of "in kind" securities from the Standish Mellon Account to TCW for purposes of the Death Benefit Fund. He indicated this would allow all of the assets in the Death Benefit Fund to be managed by the same Manager (TCW). He noted a correction to the Resolution is suggested for "BE IT RESOLVED" to read:

"the following securities be transferred from Standish Mellon Asset Management Company LLC to TCW Asset Management Company effective July 1, 2002.

FHLMC (313401JL6)	\$9,095.30
GNMA (362030V62)	6,140.18
GNMA (362051DSO)	<u>1,668.58</u>
	\$16,904.06”

He recommended approval of Resolution 02-94 as amended. Mr. Mirisola moved approval of Resolution 02-94. Seconded by Mr. Vazquez and carried unanimously after the following vote:

Ayes: Mirisola, Bertrand, Vazquez, and Romero
 Nays: None

- b. Resolution authorizing the transfer of “in-kind” securities from the Standish Mellon Asset Management Company LLC account (referred to as “Highmark Account”) to the TCW Asset Management Company for purposes of the DWP Disability Fund.**

Mr. Vellon reported this resolution allows for the transfer of “in kind” securities from the Standish Mellon (Highmark Account) to TCW for purposes of the Disability Fund. He indicated this would allow all of the assets in the Disability Fund to be managed by the same Manager (TCW). He noted a correction to the Resolution is suggested for the “BE IT RESOLVED” to read:

“the following securities be transferred from Standish Mellon Management Company LLC (Highmark Account) to TCW Asset Management Company effective July 1, 2002.

JC Penney (708160AH9)	\$31,000.00”
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He recommended approval of Resolution 02-95 as amended. Ms. Bertrand moved approval of Resolution 02-95. Seconded by Mr. Mirisola and carried unanimously after the following vote:

Ayes: Mirisola, Bertrand, Vazquez, and Romero
 Nays: None

- c. Resolution authorizing the transfer of “in-kind” securities from the Standish Mellon Asset Management Company LLC account (regular account) to the TCW Asset Management Company for purposes of the DWP Disability Fund.**

Mr. Vellon reported this resolution allows for the transfer of “in-kind” securities from the Standish Mellon (Regular Account) to the TCW for purposes of the Disability Fund. He indicated this would allow all of the assets in the Disability fund to be managed by the same manager (TCW). He noted a correction to the Resolution is suggested for the “BE IT RESOLVED” to read:

“the following securities be transferred from Standish Mellon Asset Management Company LLC (Regular Account) to TCW Asset management Company effective July 1, 2002.

CONOCO INC. (208251AC2)	\$1,000,000.00
PACIFIC NORTHWEST BELL (694665AC4)	<u>\$ 100,000.00</u>
	\$1,100,000.00

[Note: Subsequent to this meeting it was noted GNMA (362030V62) in the amount \$4,446.21 and GNMA (262097AC1) in the amount of \$13,412.91 are part of this "in kind" transfer and these were added to Resolution 02-96 as the overall rounded total of \$1.1 million does not change]

GNMA (362030V62)	\$ 4,446.21
GNMA (262097AC1)	<u>\$13,412.91</u>
	\$17,859.12

Mr. Vellon recommended approval of Resolution 02-96 as amended. Mr. Mirisola moved approval of Resolution 02-96. Seconded by Mr. Vazquez and carried unanimously after the following vote:

Ayes: Mirisola, Bertrand, Vazquez, and Romero
 Nays: None

- d. Resolution authorizing the Bank of New York to implement investment instructions (on behalf of the DWP Plan) from TCW Asset Management Company for purposes of DWP Death Benefit Fund and DWP Disability Fund in accordance with the Investment Management Contracts executed by the DWP Board, to become effective July 1, 2002.**

Mr. Vellon reported this resolution authorizes the Bank of New York to receive directives from TCW in relation to the Disability and Death Benefit Funds under the contracts in effect July 1, 2002. Mr. Vazquez moved approval of resolution 02-97. Seconded by Mr. Mirisola and carried unanimously after the following vote:

Ayes: Mirisola, Bertrand, Vazquez, and Romero
 Nays: None

The Board meeting was adjourned at 11:38 AM

JAVIER ROMERO
 President

DUAMEL VELLON
 Secretary

SILVIA TESSENEER
 Recording Secretary